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SUBJECT: COMMENTS ON TWP DRAFT REPORT ON INVESTMENT OF
SURPLUSES BY OIL PRODUCERS

REF: A. CPE/TWP(75)10; B. OECD 25688

1. FOLLOWING COMMENTS ARE KEYED TO PARAGRAPH NUMBERS OF
REFDOC.

2. BEGIN TEXT.

PARA (3): IN ORDER TO SOFTEN IMPLICATION THAT INCREASED
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OPEC IMPORTS AND OECD CONSERVATION ARE INSIGNIFICANT

FACTORS IN DECELERATED OPEC ACCUMULATION OF SURPLUSES,
SUGGEST "LARGELY" BE REPLACED BY "IN LARGE PART" (2ND
SENTENCE). PARA (5), SUBPARA (II): WE BELIEVE THE DRAFT
ATTRIBUTES UNWARRANTED EXPLANATORY POWER TO OPEC "RESPON-
SIBLE" BEHAVIOR. IN OUR VIEW, LIMITED AVAILABILITY OF
ALTERNATIVE FINANCIAL ASSETS WITH COMPARABLE CHARACTERISTICS
IN CURRENCIES OTHER THAN DOLLARS AND STERLING IS MAJOR
FACTOR IN OPEC BEHAVIOR, WHICH IS BEST CHARACTERIZED AS
RISK AVERTING. GOVERNMENTS' GREATER READINESS TO SEE THEIR
EXCHANGE RATE MOVE IN RESPONSE TO SUDDEN TRANSFERS OF
FUNDS LENDS EMPHASIS TO THIS BEHAVIOR. SUGGEST DELETION
OF REMAINDER OF FIRST SENTENCE FOLLOWING "OCCURRED" AND
REVISION OF SECOND SENTENCE TO READ "THE LIMITED RANGE OF

ALTERNATIVE ASSETS WHICH COULD ABSORB VERY LARGE AMOUNTS,
GIVEN THE RISK-AVERTING BEHAVIOR OF OPEC COUNTRIES,
PROVIDES A LIKELY BARRIER TO EXTENSIVE MOVEMENTS OF FUNDS.
MOREOVER, ANY SUCH MOVEMENT WOULD TEND TO BE MODERATED
BY THE REGIME OF FLOATING EXCHANGE RATES." PARA (6):
THIS PARAGRAPH CAUSES SOME CONFUSION BY LUMPING TOGETHER
THE HIGHER COST OF OIL IMPORTS (IMPACT ON CURRENT ACCOUNT)
AND THE NON-MATCHING DISTRIBUTION OF OPEC INVESTMENTS
(FINANCING OF CURRENT ACCOUNT). REFERENCE IN FINAL SEN-
TENCE TO PROBLEMS POSED BY NEED TO TRANSFER REAL RESOURCES
SHOULD BE INCORPORATED (IN MORE DIRECT FORMULATION) WITH
THE FORMER. ALSO, THERE MIGHT BE SCOPE FOR INDIRECT
REFERENCE TO FINANCING DIFFICULTIES OF NON-OECD COUN-
TRIES. SUGGEST FOLLOWING LANGUAGE: "ON THE OTHER HAND,
MANY COUNTRIES COULD FACE SERIOUS STRAINS IN COPING WITH
THE FINANCING OF DEFICITS IN CURRENT BALANCES, WHICH HAVE
BEEN EXACERBATED BY THE COST OF OIL IMPORTS, AND ALL OECD
COUNTRIES FACE A DIFFICULT REAL ADJUSTMENT IN THE LONGER
RUN. MOST OF THE SMALLER OECD COUNTRIES... MAY INCREASE
IN 1976. THEIR FINANCING PROBLEMS MAY BE AGGRAVATED BY A
NON-MATCHING DISTRIBUTION OF OPEC INVESTMENTS AND BY
REPERCUSSIONS IN OECD FINANCIAL MARKETS OF FINANCING
DIFFICULTIES OF NON-OECD COUNTRIES. NONE OF THEM... NEXT
YEAR." PARA (9): FIRST SENTENCE PROVIDES OVERLY WEAK
NEGATIVE STATEMENT ON OECD INITIATIVE CONCERNING COOPERA-
TIVE FINANCIAL ARRANGEMENTS WITH OIL PRODUCERS. THIRD
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SENTENCE NEEDS TO BE MADE CLEARER. SUGGEST DELETION OF
"URGENT" IN FIRST SENTENCE AND EITHER DELETION OF THIRD
SENTENCE OR REDRAFTING OF LATTER PORTION ALONG FOLLOWING
LINES: "...TO GIVE PRACTICAL EFFECT TO THE RESPONSIBILITY
THE OPEC COUNTRIES HAVE IN THE SMOOTH FUNCTIONING OF THE
INTERNATIONAL ECONOMIC SYSTEM, A RESPONSIBILITY THAT
THE OECD COUNTRIES HAVE ACCEPTED FOR A LONG TIME."
PARA (10): LEST SUBPARA (I) IMPLY THAT OECD MEMBERS ARE

ACTIVELY STUDYING A SPECIFIC PROPOSAL, SUGGEST BEGINNING FIRST SENTENCE WITH "THE CONCEPT OF A JOINT..."

PARA (11): IT SEEMS TO US THAT THE REFERENCE TO THE IMPACT OF RECESSION ON THE DEMAND FOR OIL, HIGHLIGHTED IN SUMMARY AND CONCLUSION SECTIONS (PARA 3), COULD BE MADE MORE APPROPRIATELY IN THIS PARAGRAPH RATHER THAN IN PARA 12 AND PERHAPS ELABORATED SOMEWHAT.

PARA (12): WE FEEL THAT RECOGNITION OF ROLE OF MARKET FACTORS IN PROVIDING INHERENT BULWARK AGAINST SERIOUS FINANCIAL REPERCUSSIONS IS EXCESSIVELY SUPPRESSED IN THIS FORMULATION. RESULT IS PESSIMISTIC APPRAISAL. SUGGEST DELETION OFFINAL SENTENCE.

PARA (14): THIRD SENTENCE DOES NOT ACCURATELY REFLECT ROLE OF U.S. BANKING SYSTEM. MODIFY SENTENCE TO READ "...A SUBSTANTIAL INCREASE IN FOREIGN LENDING, WHILE AT THE SAME TIME IT WAS THE RECIPIENT OF LARGE INFLOWS FROM OPEC AND OTHER SOURCES. THERE HAS BEEN SOME HELPFUL..."

PARA (16): AS DRAFTED, THIS PARAGRAPH PROVIDES NO RECOGNITION OF THE CONTINUED PURSUIT OF HIGH EMPLOYMENT POLICIES, DESPITE THE FALL-OFF OF FOREIGN DEMAND, BY MANY OF THE SMALLER OECD COUNTRIES. SUGGEST ADDITION AT END OF SECOND SENTENCE OF PHRASE:..."AND POLICIES IN SOME OF THESE COUNTRIES TO COMPENSATE AS MUCH AS POSSIBLE THE EFFECTS OF THE RECESSION ELSEWHERE."

PARA (17): WE BELIEVE THAT POLICIES DESIGNED TO REDUCE LEVEL OF ECONOMIC ACTIVITY HAVE BEEN UNDERTAKEN BY SOME SMALLER COUNTRIES RELATIVELY RECENTLY AND BECAUSE OF BUDGETARY CONSIDERATIONS AS WELL AS DOMESTIC BALANCE OF PAYMENTS CONSTRAINTS (SEE ALSO COMMENT ON PARA 10). SUGGEST SUBSTITUTION OF "EXTERNAL AND DOMESTIC" FOR "BALANCE OF PAYMENTS" IN SECOND SENTENCE.

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PARA (20): COMMENT ON AND SUGGESTED CHANGES FOR PARA 5 APPLY HERE AS WELL.

PARA (21): LOOKING AGAIN AT THIS FORMULATION, WE FEEL THAT THIRD SENTENCE EXAGGERATES THE STRAIN CREATED FOR BANKS' WHEN READ IN CONJUNCTION WITH (NEW) FOURTH SENTENCE. EARLIER BANKING DIFFICULTIES WERE MORE RELATED TO PROBLEMS OF INDIVIDUAL BANKS (E.G., CURRENCY SPECULATION) RATHER THAN PLACEMENT OF OPEC FUNDS PER SE. PREFER THIRD SENTENCE READ "...INITIALLY APPEARED TO PUT HEAVY STRAINS..." (ALTHOUGH WE RECOGNIZE THAT WE ACCEPTED EXISTING FORMULATION IN PREVIOUS DRAFT). INGERSOLL

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